

PRESS RELEASE

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Second wave likely to reverse the trend in auto fuel demand recovery: ICRA

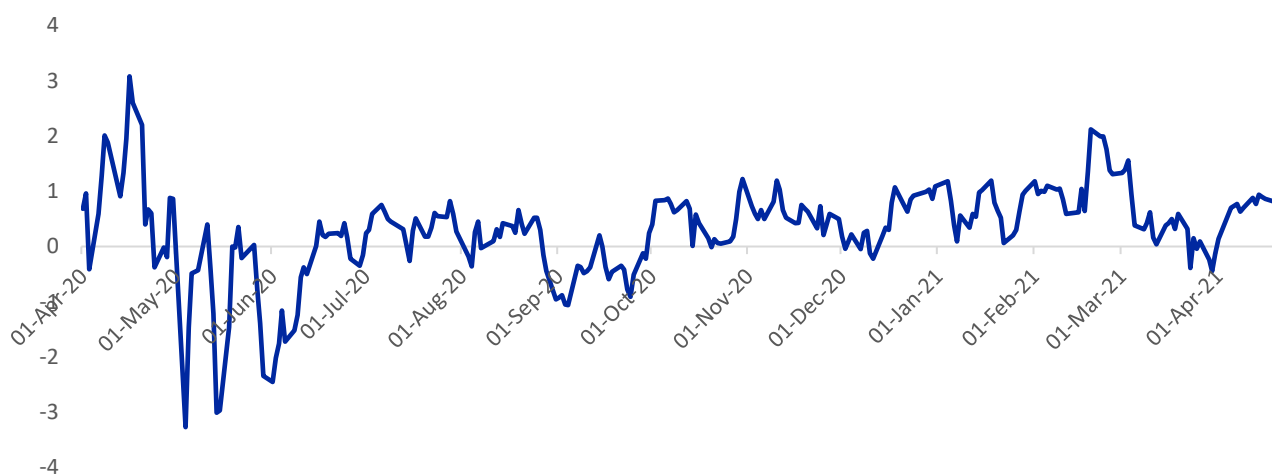
- *Lockdowns and travel restrictions imposed by several states would dampen the sale of auto fuels and aviation turbine fuel, leading to refining and marketing companies reducing throughputs on a QoQ basis*
- *The operating profitability of refining and marketing companies is likely to be adversely impacted in Q1 FY2022 owing to a decline in capacity utilisations, subdued GRMs and marketing margins*

Owing to the severity of the current Covid wave, several state governments such as Maharashtra, Delhi, Jharkhand and Rajasthan have imposed localised lockdowns and curfews to slowdown the spread. As per ICRA, the lockdowns and travel restrictions imposed have dampened the sale of auto fuels and aviation turbine fuel, leading to refining and marketing companies reducing throughputs. Going forward, the possibility of such a trend gathering pace, as more and more states resort to lockdowns amid a surging case count and strained healthcare system, cannot be ruled out.

Providing more insight on the issue, **Mr Sabyasachi Majumdar, Group Head & Senior Vice President** at ICRA said: *“Refining and marketing companies are cutting down on capacity utilisation although the demand slowdown is not as severe as April 2020. Nevertheless, the capacity utilisation and revenues and profitability of the refining and marketing companies are likely to be adversely impacted owing to the demand slowdown. The GRMs are expected to remain muted owing to the disproportionately higher fuel and losses and operating expenses on a per barrel basis at lower capacity utilisations. Additionally, international crude oil prices have remained elevated due to the active production management by OPEC+ countries, leading to elevated levels of fuel and losses.”*

ICRA also notes that the Singapore GRMs remain subdued due to the global supply overhang amid a demand slowdown and are unlikely to materially improve in the near term, owing to the second wave of Covid in certain large economies such as India and Japan. Additionally, though many countries have put travel restrictions on flights from India, the mutation, thought to be behind India’s second wave, has spread to at least 10 other countries. As more countries witness a virulent second wave, oil demand and GRMs could be dampened.

Exhibit: Trend of Singapore GRMs (\$/bbl)



Source: Bloomberg, ICRA research

Besides the impact of low GRMs, the marketing margins of oil marketing companies have remained low as no increase has been done in the retail prices of auto fuels since February 27, 2021, despite the international crude oil

prices rising significantly during this period. Though ICRA expects the retail prices of auto fuels to be hiked from May onwards, however, the said rise is likely to be calibrated over a period of time, given the resurging pandemic. Accordingly, the operating profitability of the refining and marketing companies is likely to be adversely impacted in Q1 FY2022 owing to a decline in capacity utilisations, subdued GRMs and marketing margins.

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